

TRANSCRIPT

FEDERAL OPEN MARKET COMMITTEE CONFERENCE CALL

February 24, 1981

Prefatory Note

This transcript has been produced from the original raw transcript in the FOMC Secretariat's files. The Secretariat has lightly edited the original to facilitate the reader's understanding. Where one or more words were missed or garbled in the transcription, the notation "unintelligible" has been inserted. In some instances, words have been added in brackets to complete a speaker's thought or to correct an obvious transcription error or misstatement.

Errors undoubtedly remain. The raw transcript was not fully edited for accuracy at the time it was produced because it was intended only as an aid to the Secretariat in preparing the record of the Committee's policy actions. The edited transcript has not been reviewed by present or past members of the Committee.

Aside from the editing to facilitate the reader's understanding, the only deletions involve a very small amount of confidential information regarding foreign central banks, businesses, and persons that are identified or identifiable. Deleted passages are indicated by gaps in the text. All information deleted in this manner is exempt from disclosure under applicable provisions of the Freedom of Information Act.

Meeting of the Federal Open Market Committee

February 24, 1981

A meeting of the Federal Open Market Committee was held on Tuesday, February 24, 1981, at 12:00 noon, at the call of Chairman Volcker. This was a telephone conference meeting, and each individual was in Washington, D. C., except as otherwise indicated in parentheses in the following list of those participating.

PRESENT: Mr. Volcker, Chairman
Mr. Solomon 1/, Vice Chairman (New York)
Mr. Gramley
Mr. Guffey (Kansas City)
Mr. Morris (Boston)
Mr. Partee
Mr. Rice
Mr. Roos (St. Louis)
Mr. Schultz
Mrs. Teeters
Mr. Winn (Cleveland)

Messrs. Boykin (Dallas), and Mayo (Chicago), Alternate
Members of the Federal Open Market Committee

Messrs. Black (Richmond), and Corrigan (Minneapolis),
Presidents of the Federal Reserve Banks of Richmond
and Minneapolis, respectively

Mr. Altmann, Secretary
Mr. Bernard, Assistant Secretary
Mr. Oltman (New York), Deputy General Counsel
Mr. Axilrod, Economist

Messrs. Balbach (St. Louis), J. Davis (Cleveland),
R. Davis (New York), T. Davis (Kansas City),
Eisenmenger (Boston), Ettin, Henry, Keir, Kichline,
Truman, and Zeisel, Associate Economists

1/ Left the meeting prior to the vote to adopt a modification of the domestic
policy directive.

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Mr. Pardee (New York), Manager for Foreign Operations,
System Open Market Account

Mr. Sternlight (New York), Manager for Domestic
Operations, System Open Market Account

Mr. Coyne, Assistant to the Board of Governors

Mr. Prell, Associate Director, Division of Research and
Statistics, Board of Governors

Mrs. Steele, Economist, Open Market Secretariat, Board
of Governors

Mr. Smoot (Philadelphia), First Vice President, Federal
Reserve Bank of Philadelphia

Messrs. Burns (Dallas), Danforth (Minneapolis) Keran
(San Francisco), Koch (Atlanta), Parthemos (Richmond),
Scheld and Syron, Senior Vice Presidents, Federal
Reserve Banks of Dallas, Minneapolis, San Francisco,
Atlanta, Richmond, Chicago, and Boston, respectively

Mrs. Nichols (Chicago), Vice President, Federal Reserve
Bank of Chicago

Mr. Campbell (New York), Assistant Secretary, Federal
Reserve Bank of New York

Transcript of Federal Open Market Committee Conference Call of
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CHAIRMAN VOLCKER. Mr. Kichline, do you want to give us a very brief update on the economy?

MR. KICHLINE. Well, employment, production, and sales were all well maintained in January. Housing starts in January continued surprisingly strong, and the incoming data generally point to even leaner inventories than we had anticipated earlier. So, briefly, as of now we would expect that real growth in the current quarter will be only a little less than the downward revised 4 percent shown for last quarter. On inflation, it's clear that we continue to experience very rapid price increases. And we continue to anticipate that the incoming data on the CPI and PPI will show some degree of acceleration in the remaining months of the quarter. As of now it's our expectation that nominal GNP this quarter will probably grow at close to the rate experienced last quarter, which was just a little above 15 percent at an annual rate.

CHAIRMAN VOLCKER. Mr. Sternlight, do you want to catch us up on where we are?

MR. STERNLIGHT. Yes, I'd like to--

CHAIRMAN VOLCKER. Oh, wait a minute. I looked at Mr. Axilrod and said Mr. Sternlight. You apparently have a call into Mr. Axilrod, so why don't you catch us up and then I'll have Mr. Axilrod catch us up.

MR. STERNLIGHT. My call to Steve, Mr. Chairman, was about the fact that the funds market situation has changed since our morning call today. But Steve might want to give more background on this. The general situation is that we are looking at a need--to meet our path objective--for substantially more reserves in this statement week. We've been going through the week finding the funds rate below the 15 percent lower bound, and on Friday and again yesterday we took action to drain reserves, which did not really cause the funds market to firm up very much at all. This morning we were looking at a very large need to add more reserves. Funds had inched up to 15-1/8 percent. We were prepared to provide some modest amount of reserves, meeting a part of the need by passing through some of our customer repurchase agreements. But between the time our call concluded and we were set to go into the market to do that, the money market eased again. Funds were back at 15 percent and I thought I would defer that modest action to add some reserves to the market. So, that was what I wanted to convey to Steve at that point. We're sitting now with funds at 15 percent and apparently a large need to add reserves this week of something like \$1.6 billion to \$1.8 billion on a weekly average basis. The banks have large cumulative reserve deficiencies and they just are not acting on that basis at this point.

CHAIRMAN VOLCKER. Well, I think that's just a setting for the general situation. Why don't you proceed, Mr. Axilrod?

MR. AXILROD. Well, Mr. Chairman, the monetary aggregates have shown diverse trends since the last Committee meeting. The narrow monetary aggregates, M1-A and M1-B, viewed after abstracting

from shifts to NOW accounts, of course, have been much [lower] than we had anticipated. But making the best estimate we can of the distribution of [those shifts], they appear to be from out of demand deposits and out of other deposits. It looks as if both M1 measures--really it's best to consider them both together--are doing the same thing; they are running substantially below the path that the Committee set. As you recall, that path called for a rate of growth in the M1 measures of roughly 5-1/2 percent. So far as we can tell, from December to March--with a projection for March that indicates a distinct rise in the rate of growth, so if March turns out to be weaker than the 6 percent or so we're projecting we'd be even further below the path--we'd have growth of M1-A at about a 2-1/2 percent rate and growth of M1-B at a 3 percent rate. From December to date, they're both showing no growth. So, this growth we're showing from December to March really is a projection of growth in the last half of February and the month of March.

On the other hand, while the narrow aggregates are weak relative to the path the Committee set, the broader aggregates are generally strong. At the time of the Committee meeting, the Committee set a path for growth in M2 at around 8 percent at an annual rate from December to March. In January and February the growth in M2 is very close to 8 percent and we're projecting a March rate of growth, given the strength we've observed particularly in money market funds so far in February, of close to 10 percent. So, if March turned out to be 10 percent or even lower--any number down to 8-1/2 percent or so--we'd be somewhat over the December-to-March path on M2. Our actual projection for December to March is 8-3/4 percent as against that 8 percent path. To date the growth is right at about 8 percent. Meanwhile, although the Committee didn't officially set a path over the December-to-March period for M3, it probably should be observed that growth in M3 has been quite strong. In January, M3 grew at about a 13 percent annual rate. And given the data we have thus far in December--

MR. PARTEE. February.

MR. AXILROD. I mean February, sorry--growth is at around a 10-1/2 percent annual rate. So in a sense M3 is growing well above its long-run path. Meanwhile, on an average basis, bank credit in January was quite strong, but the fragmentary data we have for the large banks suggest a substantial slowing in that growth in February, probably an extension of the slowing that might have been developing over the course of January. That's the report on the aggregates, Mr. Chairman.

I don't know whether Mr. Sternlight wants to report further on interest rate developments but, given the weakness in the narrow aggregates in particular, there has been a drop in required reserves relative to the original path. In consequence, the implied borrowing has dropped from about the \$1.3 billion that was used in constructing the path originally to something on the order of \$770 million in the current and next statement weeks, and that has been accompanied by a sharp drop in money market rates, and indeed in the funds rate to below 15 percent recently. Given our projection of the aggregates, it would appear that borrowing after the next two weeks would rise back up to somewhere between \$900 million and \$1 billion. So even if this \$770 million worked out--and it hasn't been working out this week--the money market would be wrenched by a turnaround in the level of

borrowing back up to the \$900 million to \$1 billion range. And, of course, it would be even higher if it turns out that we're underprojecting the aggregates, as is possible, given the GNP outlook that Jim just mentioned.

CHAIRMAN VOLCKER. I don't know whether you want to add a word, Peter, at this point.

MR. STERNLIGHT. No. I think Steve covered it. As he said, the short rates have come down because we've been aiming for the nonborrowed [reserve path] such that borrowing was on a declining track. So funds have come down from the 17 percent area to a shade under 15 percent; in fact the funds rate average is 14-7/8 percent so far this week. It is interesting that as you go out longer in the maturity spectrum rates have actually moved up since the time of the meeting a couple of weeks ago with continuing concern in the market about longer-term prospects in the economy, budget policy, and so on. So it's very much a swinging around of the yield curve with those short rates coming down and the long rates going up modestly.

MR. AXILROD. Mr. Chairman, I think it would helpful to the Committee, in pointing to the oddity of this M1 behavior, to note that at the time the path was set at the last meeting we expected--and the Committee adopted a target of--growth Q1-over-QIV of around 2-3/4 percent in M1-B, abstracting from all those shifts. Given the pattern we have thus far in the month and expecting March growth of 6-3/4 percent, abstracting from shifts, we would end up with a rate of growth quarter-over-quarter of 0.5 percent, effectively zero. Meanwhile, it looks as if nominal GNP is a bit higher. So we're staring at a velocity here of M1-B of 14 or 15 percent at an annual rate. Granted that the staff in its brilliance expected a downward demand shift, we didn't expect anything like this. This would be a very unusual result should it stand up, suggesting that something might give here, either the M1 or maybe nominal GNP. It's not clear.

CHAIRMAN VOLCKER. There is another possibility, not exclusive of the possibilities that you cited: That the kind of institutional wrench of NOW accounts has somehow affected behavior. I don't know [why] that should be but it's a peculiar coincidence.

MR. AXILROD. Well, I was talking to Jim in the hall, and my memory is that in early '79--I'm not sure of the timing--when ATS accounts were introduced, we got more of an effect on demand deposits than we thought a priori we would get. Our rationale at that point was that this made people begin to think about their whole cash management process and that they might have switched not only into ATS accounts but decided that they had surplus cash in general and put money in money market funds at the time. That's similar to what is going on now.

CHAIRMAN VOLCKER. I have an uneasy feeling from time-to-time that we may just be getting some pure misreporting from banks, where ATS accounts are not classified in the right [categories] with this limitation of three transfers a month. Banks really don't know what to do. I suspect we do get some misreporting. Actually, I suspect we get a lot of it; whether it's mutually offsetting, I don't know. But there are a lot of elements of uncertainty.

Well, the general purpose of the meeting today, of course, is that we are having a consultation because we reached the 15 percent [lower limit on the funds rate band] that we cited [in the directive]. The question is what to do about it. My own feeling is that moving very mechanically on uncertain M1 numbers, in the light of the other aggregates being high and considering that there has been a substantial easing in the money market, is probably not appropriate pending some further evaluation of this. We actually set a little higher target at the Federal Open Market Committee [meeting] this time than we had in December, if you recall. We didn't accept the low path that took us back to the equivalent of the December decision, if that's a correct way to state it, Mr. Sternlight. In any event, we have a conflict between the two parts of the directive and the question is what to do about it. We can just operate on the 15 percent limit, I think, without doing anything. Alternatively, and I think probably more appropriately, we can make a different judgment. These judgments have an arbitrary element anyway. We are keying off the \$1.3 billion borrowing assumption we made at the last meeting and the changes have been mechanical from there. I would propose raising the borrowing assumption from where we now are--not from the \$1.3 billion but from the \$770 million. We think it's likely to go up anyway when we get through this period. Raising that to somewhat over \$1 billion and letting the money market go where it goes with that assumption seems to me not inappropriate at this time. So, that's what I would propose. Let me hear what other reactions are.

MS. TEETERS. Are you implying that we would let it reach the 15 percent?

MR. MORRIS. Paul, this is Frank Morris. I would support your position. We have a conflict between the financial data and the economic data at the moment and my hunch is that it will be resolved in a softening in the economy. Not only do we see the [low growth in the] M1 measures, but we see a flattening in business loans and steady weakness in commodity prices. So, I think we've got to hold on until we find which way this ball is going to bounce, and I would support your position.

CHAIRMAN VOLCKER. I don't know which way the ball is going to bounce. But I'm a little suspicious even if there were some slowing in the economy, which isn't very visible now but which I don't discount, that we may get a big bounce up in these M1 figures anyway because that velocity figure looks awfully peculiar.

MR. ROOS. This is Larry Roos.

CHAIRMAN VOLCKER. [Mrs. Teeters], I'll get to you in a minute.

MR. ROOS. I must disagree with you. First of all, if you observe what has happened to the monetary base, there is every reason to believe that there would be this flat movement of the aggregates. To me our biggest problem is to avoid like the plague a replay of what happened last year when we had a significant undershoot early in the year. [My reason is that] I think people are looking to us to achieve a steadiness that was not characteristic of last year. If we adjust our borrowing assumption upward, that has the same effect of perhaps leading to an undershoot in the long pull. I just think that we

should reduce the lower limit of the fed funds range and provide whatever reserves are necessary to avoid a downward movement like the one that occurred last year in such a damaging way.

CHAIRMAN VOLCKER. Mrs. Teeters has a question.

MS. TEETERS. I just want to clarify what your proposal is, Mr. Chairman. If we moved to a borrowing level of \$1 billion, does that mean that we're then going to let the interest rate fluctuate below as well as above the 15 percent floor?

CHAIRMAN VOLCKER. My assumption is that we'd move the borrowing [down to] probably a little above \$1 billion, but then let interest rates develop as they would. And if, after a suitable interval of time, [the funds rate] appeared to be moving lower and was inconsistent, we'd have another consultation.

MS. TEETERS. Yes, but moving to the \$1 billion plus--

CHAIRMAN VOLCKER. It does not mean protecting the 15 percent floor per se during this interval, but we may have another consultation.

MS. TEETERS. Right. But moving from where we are to \$1 billion plus in borrowing implies some tightening in the market at the present time. And it would lower the nonborrowed reserve path. Is that correct?

CHAIRMAN VOLCKER. Well, it would lower the nonborrowed reserve path, yes. But I don't know what the market effect would be.

MS. TEETERS. Yes.

MR. AXILROD. The market would be somewhat tighter than it would otherwise be, but I'm not so sure it would be much easier or tighter than in fact it is now; borrowing has been running about \$1.1 billion. That's literally where we are.

CHAIRMAN VOLCKER. Yes, it's uncertain; it doesn't imply necessarily an increase. We just don't know. Governor Partee.

MR. PARTEE. Paul, I too would like to temporize for a while, and I think that's what we're talking about. It seems to me most likely that both of the pieces of the scissors that we're looking at are going to come together by the nominal GNP moderating and by the money numbers going up. I think both will happen. But now we're talking about such a very large velocity number that there is lots of room for both to move toward each other and still not be out of line. You may remember that late last year we had a couple of similar conference calls in which we told the Manager that he didn't have to observe the upper limit of the funds range exactly, but that he should let the market tend to [set] the rate and it could be a little above that limit. I think a similar [response] may be quite appropriate now: not changing the lower limit from 15 percent but letting the Manager let the market determine the rate. And if it turns out to be somewhat lower than 15 percent, he should not resist it. I do think that would likely result in quite a bit lower rate unless we move the nonborrowed reserve path down some--on the order of \$100 million or so

from where it otherwise would have been--which as I understand it is what you're proposing. I think that would be a good move at this time.

VICE CHAIRMAN SOLOMON. Paul, this is Tony Solomon. I agree with the substance of your analysis of the situation and the bottom line of your recommendation. But since it's not clear that even an increase in the borrowing assumption and a lowering of the nonborrowed reserve path will necessarily keep us where we want to be while we wait out this peculiar situation, another possibility would be to modify the last meeting's directive to say that in view of the stronger growth in the broader aggregates and the fact that the narrower aggregates are somewhat distorted by the NOW account picture, we would permit some undershooting for a period of time. And then we could consult again. As I remember the discussion at our last FOMC meeting, even though it never got into the directive as such, there was some feeling in the group that it would be appropriate to permit some undershooting in view of the overshooting in the second half of last year. But I'd go along with your more informal approach, if the Committee doesn't want to modify the directive.

CHAIRMAN VOLCKER. Well, if we have a formal approach, I would--

MR. MAYO. Bob Mayo. I would support you, Paul. Chuck has given my reasoning for the sort of floating idea that you have stated in a little different way. I wouldn't formalize [the approach] at this point. We'll just keep our ears open until we get some figures that we're a little more comfortable with. This is a real puzzle.

CHAIRMAN VOLCKER. Let me just interject. If you want to formalize it, I had some wording that I was fooling around with here, which follows pretty much what Mr. Solomon said. It would say something like: "In light of the relatively strong growth of M2 and M3 and the substantial easing recently in money market conditions, as well as uncertainties about the behavior of M1, the Committee agreed to accept some shortfall in the growth of M1-A and M1-B from the specified rates in the domestic policy directive as consistent with developments in the aggregates generally and the objectives for the year."

MR. MAYO. Sounds pretty good.

CHAIRMAN VOLCKER. We'll discuss formal or informal later. Let's get the substantive views.

MR. WINN. Mr. Chairman, this is Willis. I have two or three things. One is that we have one method now of addressing our base drift problem with these developments and we really didn't address that in our previous discussion. Second is that loan demand is not off as much at the small banks, I think, as it is at the large banks with the shift into commercial paper, given the lagging prime rate. And third, a technical way of achieving the same purpose--although I think it would be far more difficult to explain--would be to drop the band but at the same time raise the discount rate. That would do almost the same thing, although it's more difficult to explain, that we'd accomplish with raising the borrowing assumption above the \$1 billion base--

CHAIRMAN VOLCKER. It seems to me that fooling around with the discount rate would be very confusing, Willis. I thought of that but--

MR. WINN. I think that's right, Paul, but it's another way to do it.

MR. CORRIGAN. Mr. Chairman, this is Jerry Corrigan. I would very much support the approach that you have suggested, and I would be disposed also to go in the direction that you and Tony both suggested of coupling that with accepting a shortfall for the time being.

MR. GUFFEY. Mr. Chairman?

CHAIRMAN VOLCKER. Yes.

MR. GUFFEY. Roger Guffey. I tentatively would support your proposal, if I understand it. So, I would like to ask a few questions. One is: When you speak of adjusting the borrowing [assumption] to \$1 billion plus, is that an adjustment from the current [assumption] of what I believe to be about \$950 million?

CHAIRMAN VOLCKER. It's only \$770 million now--or will be on the current projection. We're in one of these arbitrary averaging periods that we use, and because we inadvertently ran a little high earlier in the period, this \$770 million is in that sense artificially low. So, the current assumption is that on the same mechanics the borrowings would go up anyway based upon current projections of the money supply in the next reserve averaging period two weeks away. And they would be around \$950 million. But right at the moment they're below that. The current expectation is that if we didn't do anything, we'd be back at \$950 million in borrowing anyway two weeks from now.

MR. GUFFEY. I'm going to have to ask another question then. The downward adjustment to the nonborrowed path to accommodate your suggestion is about \$250 million. Is that right?

MR. AXILROD. It would be about \$150 million a couple of weeks from now and in the current two-week period it would be close to \$350 million because we would in effect be leaving borrowings--

CHAIRMAN VOLCKER. \$300 million anyway.

MR. AXILROD. --at the \$1.1 billion level, as they were in the first two weeks following the Committee meeting, instead of having them drop to around the \$770 million, which would require it to average out at \$950 million, if you know what I mean.

MR. GUFFEY. Yes I do and I would approve that. The second question that I had, Mr. Chairman, is for a bit clearer statement as to what we would do with the lower bound, which is 15 percent.

CHAIRMAN VOLCKER. Well, my proposal is that we wouldn't do anything with it, but we would recognize that market rates might be above or below it. If they were significantly below, we might want to have another consultation in a couple of weeks or a week or whatever.

MR. GUFFEY. Significantly means something in the 14-1/2 percent or below range?

CHAIRMAN VOLCKER. Well, I don't know that we would consult if it were 14-1/2 percent, just having consulted today; but if it got down toward 14 percent, I certainly think we'd have another one, just consistent with the basic directive.

MR. GUFFEY. I would support you on that basis.

MR. KOCH. Mr. Chairman, this is Don Koch for Bill Ford who has asked me to convey the fact that since M2 and M3 are quite strong at this time, he would very much go along with your recommendation. Steve, can you tell me what has happened to the excess reserve account during the time that borrowings have gone from [our assumption of] \$1.3 billion to [the current level of] \$770 million?

MR. AXILROD. Excess reserves have been running a little lower than in the previous three or four months. In the first week of this period, they dropped to--

MR. STERNLIGHT. We didn't hear the question in New York.

MR. AXILROD. The question, Peter, is: What has happened to excess reserves since the Committee meeting?

MR. KOCH. What is happening to the excess reserves during this period as far as your expectations?

MR. STERNLIGHT. Well, they tended to come down; of course, they had been running very high in December and January. These recent levels have been a bit more in the \$200 to \$400 million area. How this week is going to work out, I don't know, because right now the banks seem to have a big cumulative reserve deficiency that they are in no mood to cover.

CHAIRMAN VOLCKER. Who is next?

MR. PARTEE. Maybe that's everybody.

MR. GRAMLEY. Well, I haven't talked yet, Mr. Chairman. This is Gramley. I support your approach. I think it's important to recognize that either we're looking at very, very artificial statistics or we're looking at a very, very substantial drop in the money demand function. And in either of those cases, that means not reacting in ways that could generate problems for the future, I think, [in terms of] letting interest rates go down a lot further than they already have. So, I would say: Yes, let's go your direction. Let's meet fairly promptly again, however, if in fact this approach leads to further declines in interest rates.

CHAIRMAN VOLCKER. I might add to that. If we got a further very distinct softening in M1 instead of the reverse, I think we ought to meet again, too. We've got to keep this under close review. Who else has not talked here? Governor Rice?

MR. RICE. I accept your proposal, Mr. Chairman, for the reasons that have already been outlined.

CHAIRMAN VOLCKER. Governor Schultz?

MR. SCHULTZ. I have nothing to add.

CHAIRMAN VOLCKER. Mr. Black?

MR. BLACK. Mr. Chairman, I'm trying to guess what we will do when the money supply strengthens. And not knowing that makes it difficult for me to decide. My sympathies lie with what Larry Roos said, but I suspect that we might be inclined to drag our feet a little too much on the up side. If that tended to be correct, then what you suggested might be the best position with which to temporize.

MS. TEETERS. I haven't known where it was and wasn't aware that we were dragging our feet on the up side.

CHAIRMAN VOLCKER. Mrs. Teeters, you haven't expressed a view. You asked a question but didn't express an opinion.

MS. TEETERS. I can go along with your approach. We simply can't make the things reconcile at this point. So, let's let the market give us some indications as to what it wants to do.

CHAIRMAN VOLCKER. Mr. Boykin.

MR. BOYKIN. I agree fully with you, Mr. Chairman.

CHAIRMAN VOLCKER. Okay. I don't know whether we have any comment from San Francisco or Philadelphia where the presidents aren't available. Well, there seems to be a general agreement with maybe a little restiveness. Let me report to you an arithmetic calculation that was made yesterday that disturbed me, which may bear upon this a bit. If you literally took our targets for this year and we hit them exactly every quarter, the average level for the year would be significantly higher than last year, even though the target is lower. That's a result I don't like much.

MR. ROOS(?). Would you repeat that, please?

MR. SCHULTZ. No. Forget it.

CHAIRMAN VOLCKER. If we were on target every quarter on the average, the average level of the money supply for this year would be higher than it was last year.

MR. SCHULTZ. The midpoint of the target?

CHAIRMAN VOLCKER. Yes, the midpoint of the target.

MR. PARTEE. That's the oddity of last year's--

CHAIRMAN VOLCKER. The reason you get that result is, in effect, the base drift problem. We ended up last year very high, and that's where the new target takes off from. So if one were looking at the year-to-year change, the target is too high unless we have a shortfall sometime during the year.

MS. TEETERS. Well, we've already got it.

CHAIRMAN VOLCKER. Well, we've already got it for six weeks, but the data are inadequate. The question remains as to whether or not we want to incorporate this in a formal finding, which would be reported when we publish [the policy record]. I think we can do it either way. One can argue that the more straightforward way is just to report it. It's not really a new directive; it's an instruction to the Desk as to how to conduct [operations] when we have the aggregates going in somewhat different directions and in the light of the 15 percent limit. I think we can well justify the written modification.

MS. TEETERS. What did we do when we reached the top?

CHAIRMAN VOLCKER. Well, when we have reached the top, I think we've done it different ways at different times. When we actually relaxed the limit, we did a formal relaxation.

MR. PARTEE. This is Chuck Partee. Paul, I didn't disagree with the first part of your language. I didn't like the reference to the uncertainty with regard to M1 in it. I certainly agree that there is great uncertainty as to the distribution between M1-A and M1-B. But I don't really think that M1-B could be much stronger than we have it because of the way the statistics are being handled. I think we could refer to the strength of M2 and M3 and to the easing in money market conditions. But I wouldn't refer to a feeling that M1-A and M1-B looked at together are not reliable. I can see how it affects the distribution, but I don't see how M1-B could be a great deal higher than we already have it.

CHAIRMAN VOLCKER. Well, M1-B would be higher if the percentage coming out of [savings] were higher.

MR. PARTEE. Yes, but we already have 75 to 80 percent, you see.

CHAIRMAN VOLCKER. Yes, we already have the percentage coming out of savings at 75 to 80 percent. The other possibility is that we're not getting all the ATS accounts reported.

MR. PARTEE. Well, I don't know if I agree on the ATS. I think they already have been set up.

CHAIRMAN VOLCKER. You were looking into that out in Minneapolis, weren't you, Jerry?

MR. CORRIGAN. Yes, I don't have anything much further to report. We have some people up here looking at it, and all I can say at this point is that the raw numbers look funny.

MR. PARTEE. I think there is probably, shall I say, some avoidance of reserves going on there. But I think it's going on by continuing to classify as ATS accounts what are really NOW accounts.

MR. CORRIGAN. I think that's right.

MR. PARTEE. And that doesn't affect the aggregates. It affects the reserves, but it doesn't affect the aggregates.

MR. CORRIGAN. It depends on where that savings part is in reserves, too. At least it's bothering me in terms of M1-B. Again, I don't have any way of knowing this, but I just wonder if some of this flow into money market funds in the last six weeks or so may not be more of a shift of consumer-type accounts out of banks into the money market funds.

CHAIRMAN VOLCKER. Yes. Of course, that's reflected in the strength of M2.

MR. CORRIGAN. True, but I'm thinking in terms of Chuck's point that he can't find any other reason to think that M1-B--

MR. PARTEE. Well, that's a different kind of reason though, Jerry. What you're saying is that the change in interest rate relationships has shifted demands for various kinds of financial assets. That's different from saying that we're uncertain about the quality of the M1-B numbers.

CHAIRMAN VOLCKER. Well, what's the general sentiment about whether to make a formal modification of the directive?

MR. ROOS. Paul, this is Larry Roos. I urge you to take some formal action because I feel strongly opposed to what everybody is agreeing to today. If you look at the monetary base for the past four months and if you look at total reserves over five months, they have been flat. We have these aggregates [unintelligible] have dropped from about a 14 percent growth rate over many months to zero recently. All of this adds up to the potential for a very serious undershoot, and I have to dissent from this action. I think it's a total mistake.

MS. TEETERS. I would much prefer to keep it on an informal basis at this point. We haven't really changed the lower [limit of the funds range]. We're doing something very similar to what was done in December when we reached the top [of the range]. I'd just keep it on an informal basis at this point.

CHAIRMAN VOLCKER. We did take a formal vote in December; that was the most recent time. Well, we have some mixed opinions. Let me just check quickly. Governor Gramley, do want to be formal or informal?

MR. GRAMLEY. I have no strong opinion; I can go either way.

CHAIRMAN VOLCKER. Mr. Guffey?

MR. GUFFEY. I'm not quite sure. I might say, if I understand what we're doing, that I think I would prefer a formal vote in the sense that there has been a policy judgment to change the nonborrowed path.

CHAIRMAN VOLCKER. There's no question that we are changing the nonborrowed path from a mechanical application of what we decided last time. Put another way, one could say it's being shifted in the light of M2, which is in the directive, and in the light of the 15 percent, which is in the directive too. That's why we can do it either way. But you're basically a formal fellow?

MR. GUFFEY. Yes, I think so.

CHAIRMAN VOLCKER. Mr. Morris?

MR. MORRIS. I'm formal.

CHAIRMAN VOLCKER. Governor Partee?

MR. PARTEE. I don't care an awful lot, except for that one objection I have to your statement.

CHAIRMAN VOLCKER. Mr. Rice?

MR. RICE. I don't feel strongly either, but I lean toward informal because I don't believe we're taking any significant policy action here today and we may want to take some significant policy action in a few days.

CHAIRMAN VOLCKER. Mr. Roos wants it formal. Governor Schultz?

MR. SCHULTZ. I lean to formal.

CHAIRMAN VOLCKER. Mr. Solomon?

MR. STERNLIGHT. Peter Sternlight, here; he was called away.

CHAIRMAN VOLCKER. Did I interpret his previous comment as wanting it formal?

MR. STERNLIGHT. I think so, although given that he's not here to cast a formal vote, he might just as soon not have it be formal.

CHAIRMAN VOLCKER. Mrs. Teeters is informal. Mr. Winn?

MR. WINN. Immaterial to me, Paul.

CHAIRMAN VOLCKER. Well, we have a lot of immateriality, but among those who expressed an opinion we have a majority--I don't know whether it's a true majority--who would like it formal. So, maybe we ought to do it formally. I do think there is uncertainty about the behavior of M1, but I don't think whether or not that is mentioned in the [directive] language is anything like a make or break point.

MR. GRAMLEY. Mr. Chairman, one way of handling Governor Partee's point is to talk about uncertainty in interpreting the M1s.

MR. PARTEE. Yes, that's all right, to put it in those terms.

CHAIRMAN VOLCKER. What's this? Uncertainties about the interpretation of the behavior? Is that the wording?

MR. PARTEE. You are saying "interpretation" now.

CHAIRMAN VOLCKER. Okay, "uncertainties about the interpretation of the behavior of..." If we're going to take a formal vote, let me try to read some scribbles I have in front of me. "In

light of the relatively strong growth of M2 and M3 and the substantial easing recently in money market conditions, as well as uncertainties about the interpretation of the behavior of M1, the Committee agreed to accept some shortfall in growth of M1-A and M1-B from the specified rates in the domestic policy directive as consistent with developments in the aggregates generally and the objectives for the year." That latter part is meant to convey that we're not just forgetting about these aggregates and we're not going to let them go down so far that it jeopardizes the objectives for the year. Understood? I take it it's understood. We will vote.

MR. ALTMANN.

Chairman Volcker	Yes
Vice Chairman Solomon	Absent; had to step away
Governor Gramley	Yes
President Guffey	Yes
President Morris	Yes
Governor Partee	Yes
Governor Rice	Yes
President Roos	No
Governor Schultz	Yes
Governor Teeters	Yes
President Winn	Yes

CHAIRMAN VOLCKER. Okay, thank you. I suspect we may well be consulting again shortly.

END OF SESSION